

PUBLIC ACCOUNTS COMMITTEE
1968-69

(FOURTH LOK SABHA)

FIFTY-SIXTH REPORT

**Over-Invoicing of Value of Imported Hides and Skins
[Para 16(ii) of Audit Report (Civil) on Revenue
Receipts, 1968]**



**LOK SABHA SECRETARIAT
NEW DELHI**

March, 1969/Phalguna, 1890 (Saka)

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PART—II†

Minutes of the sittings of the Public Accounts Committee
held on—

3.8.1968 (FN)

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*Declared elected on the 19th August, 1968 *vice* Shri M. M. Dharja, resigned from the Committee.

INTRODUCTION

1. I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Fifty-Sixth Report (Fourth Lok Sabha) on Over-invoicing of Value of Imported Hides and Skins [Para 16 (ii) of Audit Report (Civil) on Revenue Receipts, 1968].

2. The Audit Report (Civil) on Revenue Receipts, 1968 was laid on the Table of the House on the 10th May, 1968. The Committee examined paragraph 16 (ii) at their sitting held on the 3rd August, 1968 (FN). The Committee considered and finalised this Report at their sitting held on the 7th March, 1969 (AN). Minutes of these sittings of the Committee form Part II* of the Report.

3. A statement showing the summary of the main conclusions/recommendations of the Committee is appended to the Report (Appendix II). For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the examination of these accounts by the Comptroller and Auditor General of India.

5. The Committee would also like to express their thanks to the Officers of the Ministries of Finance and Commerce and the Central Bureau of Investigation for the co-operation extended by them in giving information to the Committee.

M. R. MASANI,

Chairman,

Public Accounts Committee.

NEW DELHI

March 7, 1969 Phalguna 18, 1890 (Saka)

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AUDIT REPORT (CIVIL) ON REVENUE RECEIPTS, 1968

Audit Paragraph

1.1. According to Audit, 33 consignments comprising 1087 bundles of raw goat skins and invoiced at Rs. 35,29,845 value were imported from Iran through Bhavnagar port of Saurashtra in March, 1965. Out of these, 24 consignments comprising 806 bundles and invoiced at Rs. 26,06,117 were cleared between 19th May, 1965 and 14th August, 1965. It was suspected by the Department in September, 1965 that the raw goat skins had been over-invoiced by about 2,000 per cent, and accordingly the goods remaining to be cleared were ordered to be detained. 281 bundles of Rs. 9,23,728 value as per the invoices were seized on 6th September, 1965.

It was suggested in March, 1966 that the sale of the seized goat skins might be expedited to avoid deterioration in value and the payment of port charges. The Collector reported in September, 1967 that the goods which were invoiced at Rs. 9,23,728 had been sold for a sum of Rs. 37,750 only and a further sum of Rs. 994 was paid as port charges for the storage of the goods.

The Ministry of Finance stated that the correct assessable value of the entire 1087 bundles of raw goat skins was not likely to be more than Rs. 1,63,050* as against Rs. 35,29,845 declared by the importers and the question of gross overvaluation of the consignments was under investigation by the Central Bureau of Investigation.

[Paragraph No. 16 (ii), Audit Report (Civil) on Revenue Receipts, 1968].

1.2. The Committee were informed by the Finance Secretary in evidence that the fraud was unearthed on the basis of a report sent by the Intelligence Wing of the Bombay Customs Office—with which Bhavnagar was attached—where one of the internal Audit clerks found that the value of similar goat skins coming from the Middle East was between Rs. 2.3 per piece, and not Rs. 40 to 50 per piece, as had been shown. The matter was first reported to the Officer at Bhavnagar and then to the Director of Revenue Intelligence. As a result of investigations, it was found that it was not only the imported goat skins coming into Bhavnagar which

*The Committee were subsequently informed by the Central Bureau of Investigation that the real value of the entire 1087 bundles was estimated at Rs. 30,000, instead of Rs. 1,63,050, mentioned in the Audit para.

had been grossly over-priced but nearly Rupees one crore worth of goods, which came in through Madras, Tuticorin, Bombay and Calcutta, were also involved. So the matter really assumed a very much larger dimension. It was felt that the matter had gone beyond the customs angle and the Economic Offences Wing of the Central Bureau of Investigation had to be brought into the picture.

1.3. According to a written note furnished by the Ministry of Finance, the investigations conducted by different enforcement agencies had revealed that six distinct groups of people were involved in frauds of over-invoicing. The frauds committed by four groups of people including those involved in the import at Bhavnagar (which formed the subject matter of the Audit para), were being investigated by the Central Bureau of Investigation. The frauds committed by the other two groups were under investigation by the Director of Revenue Intelligence.

1.4. In his evidence, the Special Inspector General, Central Bureau of Investigation stated that of the four cases of over-invoicing investigated by the Central Bureau of Investigation, two were registered in 1966 and two in 1967. The case referred to in the Audit Report was the third to be registered by the Central Bureau of Investigation. The total amount of foreign exchange remitted abroad in these cases was Rs. 1,54,32,438. As against this, the actual value of the imported goods (both cleared and uncleared) had been estimated at Rs. 1,03,500.

1.5. The investigations had also revealed that black money of the order of a little over Rs. 1½ crores was involved in these cases. The matter had been brought to the notice of the Chairman, Board of Direct Taxes

Background

1.6. According to the notes furnished by the Ministry of Finance and the Central Bureau of Investigation, under the Export Promotion Scheme for Tanned Hides and Skins, import entitlement at 75 per cent was allowed against export of tanned hides and skins, including E.I. tanned leather from 1st October, 1960 to 14th May, 1964. In order to augment supplies of raw hides and skins in the country, import of raw hides and skins as well was permitted against imported entitlement earned from exports of tanned hides and skins, including E.I. tanned leather. Entitlements that accrued to exporters in respect of exports made from 1-10-1960 to 31-5-1963 could be utilised by the exporters in any manner they liked. There was no restriction on sale or transfer of these entitlements.

1.7. A large number of leather merchants from Madras State, who had been making exports of tanned hides and skins, became eligible for im-

port entitlements under this scheme. They applied for import entitlements and licences through the Leather Export Promotion Council, Madras. During the licensing periods April, 1964 to March, 1965, 230 licences valued at Rs. 2,88,62,473 were issued by the Joint Chief Controller of Imports & Exports, Madras to these merchants for the import of raw hides and skins.

Modus Operandi

1.8. The Madras Branch of the Economic Offences Wing of the Central Bureau of Investigation received information that some of the licensees had disposed of their import licences for raw hides and skins to certain businessmen of Bombay and Delhi instead of utilising these licences for importing raw hides and skins. The licensees obtained 2-3 per cent commission on the face-value of the licences for raw hides and skins on such sales. The purchasers of the licences made arrangements through their relatives, friends and agents abroad for the purchase of worthless hides and skins from Singapore, Tehran, Kuwait and Aden and managed to have false invoices showing highly inflated prices for such goods prepared to enable them to remit foreign exchange out of all proportions to the real value of the goods imported. These goods were received at Madras, Nagapattinam, Bombay and Bhavnagar Ports. Most of the goods received at Madras remained uncleared and this aroused the suspicion of the local customs and port authorities about the genuineness of the imports. Secret enquiries were made by the Economic Offences Wing, Madras and it was found that certain businessmen had managed to remit large sums of foreign exchange abroad under the cover of these imports taking advantage of certain lacuna in the scheme and loopholes in procedure.*

1.9. In one of the two cases investigated by the Directorate of Revenue Intelligence (Ministry of Finance), the *modus operandi* adopted was to import post parcels containing worthless papers, catalogues etc. against import licences for hides and skins by misdeclaration of the contents of the parcels. By the time the parcels were examined and the fraud was detected the persons concerned had succeeded in remitting foreign exchange worth about Rs. 5.60 lakhs in respect of these parcels on the strength of the Exchange Control copy of the licences for hides and skins with the help of some of the employees of the Banks through which the foreign exchange transactions were negotiated. In the other case, foreign exchange worth about Rs. 2.76 lakhs had been remitted by

*Information furnished by the Central Bureau of Investigation.

the party by misuse of import licences for hides and skins before the fraud was detected.*

Details of the cases investigated by the Central Bureau of Investigation

Case No. 1

✓ 1.10. The Madras Branch of the Economic Offences Wing of the Central Bureau of Investigation registered its first case on 8-4-1966 under Sections 120-B, 420 IPC, Section 5 of the Imports and Exports (Control) Act and Sections 4(i) and (iii) of the Foreign Exchange (Regulations) Act, 1947 in respect of 98 import licences issued to 43 exporters for import of raw hides and skins. The value of these licences came to Rs. 1,14,00,000. Investigations disclosed that raw hides and skins of worthless value were supplied and shipped by a Singapore firm against the orders placed by a businessman of Bombay, who had managed to purchase these licences from the leather merchants of Madras with the help of local brokers after making a payment of 2.3 per cent of the value of the licences to the original licence-holders. Foreign exchange worth Rs. 1,14,00,000 was remitted to the Singapore firm through the Branches in Singapore of a number of Banks. The shipping documents were retired from the branch offices of these banks in Bombay and Madras by the agents of the Bombay businessmen on sight basis after making payment in cash. Most of the shipping documents were destroyed by the importer, as he was not interested in clearing the goods being of no value at all. An idea of the worthlessness of these goods and the extent of over-invoicing can be had from the fact that the goods invoiced at Rs. 1,14,00,000 were actually assessed at Rs. 50,000 by the Indian customs authorities.

1.11. Information of similar frauds having been committed by some other businessmen was received by the Madras Branch of the Economic Offences Wing while investigation in the above case was on. After checking this information, three more identical cases were registered by the Branch for investigation (described hereinafter as Cases Nos. 2.3 and 4).

Case No. 2

1.12. This case was registered on 2-8-1966. The number of import licences involved in this case was seven, valued at Rs. 4,69,712. The foreign exchange remitted against imports of spurious raw hides and skins from Aden, was Rs. 4,60,907. The purchaser of these licences was also a businessman of Bombay. The suppliers and shippers were M/s..... of Aden, a firm owned by the father of the im-

*Information furnished by the Directorate of Revenue Intelligence.

porter. The imported goods, when auctioned at Madras, fetched only Rs. 21,500 against its invoiced value of Rs. 4,60,907, remitted through Banks at Bombay and Aden.

1.13. Charge-sheet had been filed against 3 accused, including the importer, under Sections 120-B, 420, 471 read with 467, 511 and 34 I.P.C. (cheating, forgery and conspiracy) in the court of the Second Presidency Magistrate, Madras on 20-2-1968.

Case No. 3

1.14. This is the case referred to in the Audit para. It was registered ✓ by the Central Bureau of Investigation on 27-1-1967. The number of licensees involved in this case was 16 and the number of import licences 39, valued at Rs. 31,77,010. These licences were purchased by Shri. of a Bombay firm which imported raw hides and skins of worthless value from Tehran (Port of Mander Abbas) by showing the name of M/s. of Tehran as shippers. The Tehran firm were given a remuneration of 3 per cent of the f.o.b. value of raw hides and skins for lending the name of their firm as shippers and receiving payments in Tehran. The entire amount thus received was returned to the importers (the Bombay firm) through one of their employees. The goods were received at Bhavnagar in India and before the entire consignments could be cleared, the fraud was detected by the customs. The real value of imported goods has been calculated to be Rs. 30,000 as against the invoiced value of Rs. 34,01,531. The entire invoiced amount was remitted through Banks to Tehran.

1.15. Investigation had been made at Bombay, Madras, Bhavnagar, Baroda and Tehran. One of the difficulties experienced by the Central Bureau of Investigation was that they could not get important documents in the initial stages. These had been obtained only recently. Investigations were almost complete and prosecution was expected to be launched shortly.

Case No. 4

1.16. This case was registered by the Central Bureau of Investigation on 22-2-1967. The import licence in this case was valued at Rs. 1,77,817. This licence was purchased by a Delhi firm which arranged for the imports of worthless hides and skins through M/s. of Aden, a firm which was floated by the partners of the Delhi firm solely for the purpose of effecting shipments. The real value of imported goods at Bombay was estimated at Rs. 2,000 against its invoiced value of Rs. 1,70,000. The remittance was made through the State Bank of India.

Chandni Chowk, Delhi through a Bank of Aden and the shipments were made from Kuwait and Aden in this case.

In this case, also, investigations were almost complete and prosecution was expected to be launched shortly.*

Cases investigated by the Director of Revenue Intelligence

Case No. 5

1.17. In this case which involved Sarvashri—of Bombay, show-cause notices had been issued by the Customs Department for offences under the Customs law. So far as action under the Foreign Exchange Regulations Act was concerned, investigations had been completed and complaints were expected to be filed in courts shortly.

Case No. 6

1.18. In this case involving Sarvashri—of Bombay, complaints were filed in the court of law by the Bombay Custom House in April, 1968 for offences under the Customs law and by the Enforcement Directorate in July, 1968 for offences under the Foreign Exchange Regulations Act, 1947. The goods imported had also been confiscated by the Customs authorities.†

Fixation of Responsibility and Proceedings for Contravention of Laws

1.19. The Committee enquired whether any official of the Bhavnagar Port was found involved in the case referred to in the Audit para (case No. 3). The Finance Secretary stated, "The Departmental investigation was made. We are not able to find any kind of *mala fide*."

1.20. In reply to a question, the Deputy Inspector General informed the Committee that they had found some evidence of a conspiracy between a senior bank employee and the clearing agents.

Laws Contravened

1.21. As regards the laws which have been contravened in these cases, the Ministry of Finance have stated:

By indulging in the frauds mentioned above the parties concerned appear to have contravened the provisions of sections 111 (m), 112, 132 and 135 of the Customs Act, 1962, sections 4 (1), 4 (3) and 9 of the Foreign Exchange Regulations Act read with sec-

*Information furnished by the Central Bureau of Investigation.

†Information furnished by the Ministry of Finance.

tion 23 *Ibid*, sections 3 and 5 of the Imports and Exports (Control) Act, 1947 clause 5 (3) (i) of the Imports (Control) Order, 1955 and sections 120 (b), 420 of the I.P.C."

Launching of Proceedings

1.22. Regarding the launching of proceedings against the accused, the Central Bureau of Investigation have stated:

"Prosecutions have been launched so far against purchasers of licences and suppliers of raw hides and skins under various Sections of Indian Penal Code, since no case for prosecution under the Foreign Exchange (Regulations) Act has been established against them. A decision about the nature of action to be taken against the licensees, banks, customs officials, brokers, clearing agents and others will have to be taken after the conclusion of court trials of these cases. It should be possible to consider prosecution of licensees under Section 5 of the Imports and Exports (Control) Act after the conclusion of the court trial against purchasers of licences and suppliers. Purchasers of licences and the licensees could also be dealt with by the Director of Enforcement, Ministry of Finance, for offences involving violation of Foreign Exchange (Regulations) Act, 1947. A self-contained investigation report will be sent in due course to the Chief Controller of Imports and Exports, New Delhi and the Director of Enforcement, New Delhi for initiating action under these Acts.

"It is also proposed to send a copy of the investigation report to the Collector of Customs concerned for taking suitable action against the customs officials and clearing agents, who helped the unscrupulous businessmen in clearing the goods from Indian ports without proper check and scrutiny.

"A report will also be sent to the Reserve Bank of India for action against certain Indian banks for acts of omission and commission on their part which have come to light during investigation."

Recovery of Illegal or Unauthorised Transfer of Foreign Exchange

1.23. In their note, the Central Bureau of Investigation have stated:

"Regarding the question of recovery of illegal or unauthorised transfer of foreign exchange, section 23 (1B) of Foreign Exchange Regulations Act lays down as follows:—

'Any court trying a contravention under sub-section (1) or sub-section (1A) and the authority adjudging any contravention

under clause (a) of sub-section (1) may, if it thinks fit, and in addition to any sentence or penalty which it may impose for such contravention, direct that any currency, security, gold or silver, or goods or any other money or property, in respect of which the contravention has taken place, shall be confiscated to the Central Government and further direct that the foreign exchange holdings, if any, of the person committing the contravention or any part thereof shall be brought back into India or shall be retained outside India in accordance with the directions made in this behalf.

Explanation: For the purposes of this sub-section property in respect of which contravention has taken place shall include deposits in a bank, where the said property is converted into such deposits'.

"It will appear from the above sub-section that it empowers a Court as well as adjudicating authority apart from levying a sentence or penalty to direct confiscation of currency, security, gold, silver goods, money or property forming the subject matter of contravention, to be confiscated to the Central Government. The sub-section further empowers the Court or Adjudicating authority to direct repatriation of foreign exchange holdings (whether forming subject-matter of the charge or not) or retention thereof in accordance with such directions as may be issued. The explanation further provides that if the offending property is converted into cash, the metamorphosis of the property, viz., cash can be confiscated."

1.24. In their note, the Ministry of Finance have stated:

".....if as a result of investigations, it is noticed that the foreign exchange or any part of it remitted in excess by over-invoicing of imports had been retained or accumulated abroad by any party necessary directions under the Foreign Exchange Regulations Act, 1947 can be issued for repatriation of the same."

Difficulties experienced during Investigations

1.25. The Special Inspector-General, Central Bureau of Investigation stated in evidence, "We experience difficulties in regard to impounding of the passports of the accused who are involved in this* case during the stage of investigation, in view of the recent Supreme Court Judgement. When the accused tried to flee the country with a view to escape prosecution, we find it difficult to prevent them"

*Case No. 3.

1.26. The Deputy Inspector General, Central Bureau of Investigation added, "Some of the persons involved in these cases are trying to escape. As you know, the Passport Act came into force recently. There are loopholes in the law and they are trying to take advantage of these loopholes in the law and are trying to run away. So, all that we could do at present is to inform the Reserve Bank of India not to issue 'P' Forms to these people. We have also alerted our check-posts which are manned by the Police and Customs. These are bailable offences under section 420, Indian Penal Code and under the Foreign Exchange Regulations Act. The accused persons get the bails and we have got a heavy surety of the value of Rs. 1 lakh. Although the sum appears to be very large, but compared to the amount involved in these cases, it is not so heavy. What is happening is that these people manage to go abroad and they try to destroy incriminating evidence against them, before we get them.... Before the Investigating Officers get there, the accused persons or sureties involved in the cases manage to visit this country and try to destroy the evidence."

1.27. The Finance Secretary added, ". So far as this question of passport is concerned, it is true that the Economic Offences Wing as well as the Director of Enforcement have been feeling concerned about the position as has emerged. I will certainly go into this matter again and one will have to be after all a little careful in imposing fresh restrictions in the face of the Supreme Court ruling on this subject. There is a thing like the liberty of the citizen. If our investigation takes an inordinately long time we have to see whether there is any way whereby we can secure the presence of the people whenever required, whether they are not leaving the country for good or whether we can justifiably hold them back on the ground that some day their evidence may be required. One will have to have a very strong case before we could say that in the public interest such and such person should not be allowed to take a journey out of the country."

1.28. In their note, the Central Bureau of Investigation have state:

"Investigation of these Economic Offences Wing cases involves obtaining of original documents from

- (i) Leather Export Promotion Council, Madras.
- (ii) Chief Controller of Import and Export's Office and the concerned Joint Chief Controller, Import and Export's Office.
- (iii) Deputy Director of Enforcement, Madras and Director of Enforcement, New Delhi.
- (iv) Collectors of Customs, Madras, Baroda and Bombay and Director of Revenue Intelligence.

(v) Private firms, foreign banks etc.—

and close scrutiny of the same. There is considerable delay of one year to one and a half years in securing these documents for purposes of investigation.

“Sometimes a number of enforcement agencies are seized of cases against firms and persons involved in Economic Offences Wing cases and it takes considerable time to obtain the original documents for CBI investigation. There are enormous difficulties in getting documents from foreign firms, banks and foreigners. Scrutiny of these documents and their production before the courts for trial are considered essential for successful investigation and prosecution of cases. Some solution to this difficulty has to be thought of and provided to reduce delays and difficulties in investigations.

“Some of these cases are complicated and time-consuming. For instance, in Case No. 1, a total of 98 import licences against 43 firms are involved. Investigation has to be carried out at a large number of places in the States of Madras and Maharashtra and also abroad at Singapore. Total documents involved are 2500, witnesses examined are 429 and the total number of accused involved are 132. The same investigating officer has also two or three cases on hand for investigation.

“Investigations abroad in important Economic Offences Wing cases are sometimes considered essential and unavoidable. It is not always possible to send an officer abroad for investigation. In such cases help of INTERPOL and our Missions abroad is enlisted for making certain investigations in foreign countries. Our experience shows that investigations done with the help of the INTERPOL or Indian Embassy officers are not always sufficiently detailed. This may be due to the fact that some of the countries concerned do not regard economic offences as serious enough to warrant sufficient care and attention from them. In some cases, the law of the country (for example, Switzerland, Dubai and Kuwait) might prohibit such probes into economic offences (like gold smuggling and compensatory payments). Embassy staff are not trained for police enquiries and investigation. Therefore, the results of their enquiries are not always helpful to the investigation. Accused persons involved in Economic Offences Wing cases are rich and influential and are also fully aware of the limitations of Central Bureau of Investigation investigating officers. They sometimes manage to send their agents and employees abroad and arrange

for destruction of available evidence before Central Bureau of Investigation begin their investigations there.

"In Central Bureau of Investigation cases, arrests are not generally made till the cases are put in court. Besides, most of the economic offences are bailable and accused persons have to be released on bail. In the interest of successful investigation and prosecution, the persons involved in Economic Offences Wing cases have to be prevented from leaving the country.

"Under the Passports Act, passport facilities cannot be denied/revoked during the enquiry/investigation stage.

"The Reserve Bank of India, on occasions, have been requested to revoke issue of 'P' forms/foreign exchange facilities to accused persons in Central Bureau of Investigation cases and they have been refusing 'P' forms at our request."

"The Reserve Bank of India have, however, been advised by their law officers that refusal of 'P' forms without giving grounds for such a refusal may not be legally sound and could be challenged in a court of law. To get over this legal difficulty, a suggestion has been made by the Reserve Bank of India, Bombay to the Central Government (Ministry of Finance) to issue a general order under Section 25 of the Foreign Exchange (Regulations) Act to prohibit the issue of 'P' forms/foreign exchange facilities to persons against whom enquiries investigations involving breach of Foreign Exchange (Regulations) Act are pending. The Central Bureau of Investigation have endorsed this suggestion, which is now under consideration of the Ministry of Finance."

Preventive and Remedial Measures

Import Entitlement Scheme.

1.29. Referring to the Import Entitlement Scheme, the Deputy Inspector General, Central Bureau of Investigation, stated during the course of evidence, "... The point is that we have allowed import licences to exporters. But, they were not interested in importing the materials. They had perhaps enough materials of their own. They were given import licences and they got about 3 per cent on the face value of these licences by selling them." The Committee desired to know the basis on which import entitlements were given. The Joint Secretary, Ministry of Commerce stated, "Under the scheme, entitlement given was twice the actual import content, subject to a ceiling of 75 per cent In this case, the actual import content was 50 per cent and the exporter got

maximum entitlement of 75 per cent. The idea is, given twice the import content, one part of the content he uses for his own export production and with the other he could certainly make some profit by transfer. This was part of the scheme." In reply to a question, he added, "Since these (import entitlements) were transferable—they are transferred in all cases."

1.30. Asked as to the number of exporters who had applied for import licences under the scheme, he stated, "I won't be able to tell you the exact number. But, I can tell you this that not many people asked for it." In reply to another question, he stated that as the number of parties who had asked for licences for the import of goatskins was not large—some of the parties having even surrendered their licences—Government had abolished the scheme in May, 1964. Under the new scheme introduced thereafter, provision for import of raw hides and skins was eliminated and the import entitlement was reduced to 19 per cent—9 per cent for chemicals and preservatives and 10 per cent for machinery and tools. Replenishments were now confined to single import content which was not transferable, as under the old scheme.

Checks at the Licensing and Importation Stages.

1.31. The Committee desired to know in evidence whether in the licences issued under the Export Promotion Scheme, the quantities to be imported had been indicated. The ex-Chief Controller of Imports & Exports stated that although there was a provision in the import licence for the indication of value as well as quantity, the practice was only to indicate the value—the limit beyond which remittance would not be permitted. He further stated that even if quantity were to be indicated, it would only be the upper limit—the ceiling—and not the quantity to be actually imported. Asked whether, at the stage of granting licence, any check was exercised to ensure that the import entitlements being granted thereunder would not be abused. The ex-Chief Controller of Imports & Exports stated, "At the time of issue of licences, there is no prior scrutiny to make sure that there will be no over-valuation at a later stage." In reply to a further question, he stated, "It is only in the capital goods licences that proforma invoices from different suppliers are required to be produced by the applicant and not for other commodities which are on mass-scale production and distribution." Asked why the same procedure was not followed in case of non-capital goods, the ex-Chief Controller of Imports and Exports stated that the capital goods offered by various parties were not necessarily alike. It was not so much to prevent over-valuation as to enable the sponsoring authority, the, Director General, Technical Development, to make a proper judgement as to which was the most suitable plant to be imported that the condition of production of pro-

forma invoices had been imposed in the case of capital goods. The Committee enquired whether to prevent the recurrence of such cases, any new procedure for the processing of applications for import licences was being evolved. The representative of the Ministry of Commerce stated, "So far as the processing of import licence applications is concerned, it is practically the same, there has not been much of difference. But in respect of export promotion, we have made some changes. Previously, there was no insistence that there should be a bank certificate stating that the documents have been negotiated. Now a certificate from Bank stating that the documents have been negotiated and also certifying the f.o.b. value is to be produced before we go into the application for import licence."

1.32. In reply to a further question, the ex-Chief Controller of Imports and Exports stated that to avoid such cases, one could conceivably think of an authority which would screen the proposed contracts to find out whether the underlying aim was to indulge in over-invoicing "The present approach is based on the assumption that the cases of over-invoicing, if any, are a fraction of the total number of transactions taking place. The question, therefore, is one of judgment, whether for the sake of preventing this kind of thing the entire 100 per cent of the licensees should be subjected to this kind of procedure. Further it is not as if in those fractional number of cases where over-invoicing is taking (place) they can get away scot-free because at the customs level, it is possible for them to detect cases of over-invoicing if they so want."

1.33. The Committee desired to know the view of Government on the desirability of indicating 'fair unit value' in the import licence. The ex-Chief Controller of Imports and Exports stated that there was a time-lag between the submission of an application for import licence and the grant of the licence; in the meantime, the prices might undergo a change. Further, the unit values indicated by the applicants were on the basis of past data. It was quite possible that at the time commitment was made, the price might be different from the one indicated earlier. He concluded, "It is not practicable to fix the unit value at the time of issue of the licence because if we fix it, the licence would be unduly rigid and the manoeuvrability of the licence-holder would be very much restricted." The Committee enquired whether the 'fair unit value' to be indicated in the licence could not be fixed on the basis of the ruling international prices, within certain limits—minimum and maximum. The ex-Chief Controller of Imports and Exports stated, "It can be done. But there may be a risk of many errors and errors of judgment in the fixing of the unit prices. First of all there is the question of complete knowledge in any organisation of the Government of all the prices which should be considered reasonable for every item that was in the import bill. . . . Moreover, there

are certain types of items which are difficult to fix the unit price; for example, spare parts of machinery. It is only for certain staple commodities which are of a standard specification that we might perhaps consider the possibility of indicating the unit value provided there are people enough in the Government who are up-to-date on the ruling price internationally for these commodities."

1.34. In reply to a question, the ex-Chief Controller of Imports and Exports stated, ".....It is the customs who are the best judge of the prices of these items because at any point of time many people are importing more or less the same commodity from different sources. If they can see one particular transaction standing out as quite different from the normal run of other transactions, then it is possible for them quickly to detect a case of either over-valuation or under-valuation." The Chairman, Central Board of Customs and Excise added, "Our assessing Officers, the Appraisers, are supposed to keep in touch with the market all the time. They also deal with importations of similar goods from various parties and from various countries. They keep registers regarding various prices."

1.35. Referring to the case mentioned in the Audit para (Case No. 3), the Committee enquired whether the parties concerned had any motive in choosing Bhavnagar as the port of landing. The Finance Secretary stated that large quantities had been seized at other ports also. Bhavnagar may have been chosen because it is a minor port and "the shady importers might have (been) motivated because the number of people and kind of people checking them are not of high ranking. It may be deliberate."

As to the steps taken to detect over-invoicing at the importation stage, the Ministry of Finance have stated:

"In order to detect over-invoicing at the time of importation the Appraising units of the Customs department have been alerted from time to time by furnishing the names and addresses of such racketeers. They have also been instructed to re-orient their concept of assessment and valuation with proper appreciation of the foreign exchange angle even at the cost of loss of revenue."

Checks at the Foreign Exchange—Releasing Stage.

1.37. The Committee enquired whether the Reserve Bank, before releasing foreign exchange, exercised any checks against over-invoicing. The

*Information furnished by the Director of Revenue Intelligence.

ex-Chief Controller of Imports and Exports stated, "The Reserve Bank does not deal with each individual case of remittances. The Reserve Bank has delegated certain powers to the authorised dealers in foreign exchange. The Banks work under a manual which has been prescribed by the Reserve Bank. Unless the authorised dealer in foreign exchange has reason to believe that *prima facie*, this is a fraudulent operation, he cannot know of it. The authorised dealer in foreign exchange deals with the party on the presumption of his integrity and honesty. On ordinary business considerations it would open a letter of credit, if there is a letter of credit stipulated in that transaction. The documents are handed over to the banks, as soon as the shipment is made against the letter of credit the remittances are automatically made." In reply to a question, he stated, "There have been cases when the bank comes to know in the meanwhile whether it is a case of over-valuation. In that case, the remittance is held up." But, he added, "If the letter of credit has been opened, it is quite possible that the remittances could have been made even before the goods landed at the Indian ports—or even before the customs could detect the over-valuation."

1.38. As to the steps taken by the Reserve Bank to prevent cases of over-invoicing, the Ministry of Finance have stated:

"...on receipt of information about the illegal remittance of foreign exchange through importation of worthless goods in parcels the Reserve Bank of India had issued their A.D. Circular No. 25 dated 18-9-1965 to all authorised dealers in foreign exchange to the effect that in case of post parcels no remittances exceeding Rs. 1000/- should be made unless documents showing evidence of clearance of goods by the Customs were produced by the importers. They also issued another A. D. Circular No. 34 of 16th November, 1965 stating that in case of certain parties of Switzerland who were found involved in the unauthorised remittance of foreign exchange through importation of worthless articles through post parcels, the documents received by the authorised dealers in foreign exchange in respect of goods despatched by these parties should not be disposed of without prior approval of the Reserve Bank."

Issue of further Import Licences.

1.39. In his evidence before the Committee, the Deputy Inspector General, Central Bureau of Investigation, stated, "The question of issuing licences to firms involved was taken up recently and it was discussed with the Chief Controller of Imports and Exports, New Delhi. It appeared

imports of these materials. The Committee desire that the Ministry of Commerce should carefully review the issue of import licences which are given by way of incentive for exports to make sure that such abuses do not recur.

1.48. Another disquieting aspect of the matter which has come to the Committee's notice is the lack of coordination between the various Ministries and Departments of Government. During the course of evidence when the Committee desired to know whether any further licences had been given to the firms which had sold the licences in these cases, the representative of the Ministry of Commerce stated categorically that the case had not even been reported to them by any quarter. The Committee are surprised to learn this. They feel that after the cases had come to light, these should have been brought to the notice of the Ministry of Commerce. The Ministry of Commerce should have also been kept fully posted with subsequent developments. This was necessary to enable that Ministry to examine the matter in the light of the new situation and initiate such action as they considered necessary. This unfortunately was not done. The Committee trust that necessary steps will be taken to ensure that in all such cases there is close coordination between the Ministries and Departments of Government.

1.49. The Committee would like the Ministry of Commerce to consider the question of debarring the persons who had abused their licences in these cases from getting further import licences.

1.50. As regards the action taken or to be taken against the persons involved in these cases, the Committee note that some of the cases have already been filed in court, and the remaining ones are also expected to be filed shortly. They would, therefore, not like to comment on this aspect. They are, however, anxious that the prospects of recoupment of foreign exchange under Section 23(IB) of the Foreign Exchange (Regulations) Act should be fully explored in all these cases.

1.51. In their note to the Committee, the Central Bureau of Investigation have promised to send to the Reserve Bank a report on the acts of omission and commission of the banks authorised by the Reserve Bank to deal in foreign exchange. The Committee trust that on the receipt of this Report, the Reserve Bank will take necessary action against such of the banks as had contravened the Reserve Bank's instructions in regard to release of foreign exchange.

1.52. The Committee appreciate the difficulties in investigation of cases involving breaches of foreign trade and exchange control laws. They are particularly anxious that persons contravening these laws should not be able to flee to other countries for the purpose of escaping punishment or destroying incriminating evidence against them. While the Committee are anxious that the freedom of the citizen is not impinged upon in any manner, they feel that such freedom should not be allowed to be so used as to prevent the law of the land from having its natural course. The Committee are keen that no person is allowed to contravene the law with impunity. It should also be examined whether and to what extent the difficulty of obtaining witnesses and documents from foreign countries and apprehending persons involved in economic offences can be got over by enlisting the support of the International Criminal Police Organisation or by amendments to Indian laws.

1.53. The Committee would also like to observe that the parties involved in cases of the present type are rich and influential and the amounts hoped to be gained large and tempting. They would like the Ministries concerned to examine whether the foreign trade and exchange control laws of this country are implemented strictly to make anti-social elements feel that breaches of law will not and cannot pay.

1.54. The Committee find that a number of enforcement agencies are seized of cases against firms and persons involved in economic offences. In the interest of smooth and swift investigation of such offences, the Committee would like to emphasise the imperative need for close coordination among these agencies. The Committee trust that necessary steps will be taken by Government to ensure close coordination between various investigation agencies.

1.55. The problem of leakage of foreign exchange through over-invoicing and under-invoicing is an old one. The Committee observe in this regard that the Mathur Study Team on Import and Export Trade Control Organisation had, inter alia, recommended the study of the problem of over-invoicing and under-invoicing by a separate Committee. Government have stated in a written note that consequent upon the abolition of the old Export Promotion Schemes and the enforcement of a new import policy for registered exporters with effect from August, 1966, Government felt that there was no need for the appointment of a Committee for the purpose. The Committee are left with an impression that the malpractice of over-invoicing and under-invoicing of exports and imports has not been effectively checked and, therefore,

they feel that it would be useful if a small Study Team consisting of the officers of the relevant Ministries and of the Reserve Bank and the Central Bureau of Investigation is appointed to study the problem in all its aspects and suggest remedial measures.

Audit of Foreign Exchange Transactions.

1.56 In his Minute of Dissent to the Report of the Sarkar Committee on steel transactions, Shri P. C. Padhi had suggested a system of periodical review of foreign exchange transactions by an external independent authority like the Auditor General. During the course of oral examination, the Public Accounts Committee raised this issue and desired that the Ministry of Finance should furnish a note on the subject.

1.57. In their note (Appendix I), the Ministry of Finance have thus summed up the Government's views on the subject:

"While the need for periodical reviews of exchange control and import trade control procedures and internal checks can be granted, it does not seem to follow from this that such a review should be necessarily or appropriately entrusted to the Comptroller & Auditor General of India."

1.58. The Ministry have, however, added:

"A limited suggestion is sometimes made that where foreign exchange is released as a *quid pro quo* for specific obligations undertaken (mainly, corresponding exports or barter), adequate procedures should be laid down to ensure that the obligations are actually fulfilled. Government recognizes the need for laying down clear procedures in such cases and making periodic checks as a part of its normal administrative responsibilities to verify actual compliance. Whether and to what extent the advice of the Comptroller and Auditor General could be usefully drawn upon in laying down appropriate procedures in this area is a matter on which this Department proposes to enter into consultations with Comptroller and Auditor General."

1.59. The Comptroller and Auditor General has offered following comments on this:

"It would be desirable to consult the Comptroller and Auditor General in regard to these procedures and he may do a test-check, when he considers it necessary."

1.60. The Committee would like Government to take an early decision in consultation with the Comptroller & Auditor General so that irregularities in cases where specific obligations are undertaken by the parties concerned may be brought out without delay.

M. R. MASANI,

NEW DELHI;

Chairman,

March 7, 1969

Public Accounts Committee.

Phalguna 18, 1890 (Saka)

APPENDIX I

[Ref. Para 2.57 of the Report]

No. F. 8(31)-B/68

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(DEPARTMENT OF ECONOMIC AFFAIRS)

New Delhi, the 28th October, 1968

Audit of Foreign Exchange Transactions

In his Minute of Dissent to the Report of the Sarkar Committee on steel transactions Shri P. C. Padhi has made a number of observations on the subject of the desirability of instituting a system of periodical review of foreign exchange transactions by an external independent authority like the Auditor General, and has ended by suggesting that an Audit review of exchange control is worthy of serious consideration. The issues involved are examined in this note.

2. It seems reasonably clear that in suggesting a scrutiny of foreign exchange transactions by the Comptroller and Auditor General of India, what Shri Padhi had in mind was not really Government's expenditure in foreign exchange, which is already under the Comptroller and Auditor General's audit as part of Government's expenditure as a whole, but rather the administration of the country's foreign exchange resources. This is done through Exchange Control and Import Trade Control. While the latter is administered through governmental agencies, the former is administered by the Reserve Bank of India. It has been stated that the Comptroller and Auditor General could undertake the work of a test-check of exchange control procedure without any undue stretching of his existing powers and that a review of the Reserve Bank of India's exchange control functions could also be undertaken by the Comptroller and Auditor General by a special dispensation under Section 51 of the Reserve Bank of India Act. It has also been suggested that, if necessary, a continuing audit by the Comptroller and Auditor General could be provided for in the bill relating to the Comptroller and Auditor General's functions which is at present under the Government's consideration. These points relate to the feasibility of finding ways and means of providing for an audit or test-check by the Comptroller and Auditor General of the operation of Exchange Control and Import Trade Control. The question for considera-

tion, however, is not one of feasibility only but one of necessity and appropriateness as well.

3. There are two aspects to the controls in question: (a) the management of a scarce resource, and (b) the performance by the Government of a regulatory function of an economic nature. Whichever of these two aspects we are thinking of, this area of Government's activities does not seem an appropriate one for being reported on to Parliament though the Comptroller and Auditor General of India and the Public Accounts Committee for the following reasons:

- (a) In the first place, while the Comptroller and Auditor General's audit is by no means confined to questions of regularity but can extend to questions of propriety and efficiency, the point of departure is always an accounts document or a fact relating to accounts, however wide-ranging and far-reaching the subsequent examination may be. In so far as the *regulatory* functions of Government in the field of foreign exchange are concerned, there is no such point of departure. In other words, these functions have no necessary relation to any accounts of Government.
- (b) Secondly, in so far as the Exchange Control functions are in the nature of the management of a scarce resource, they are no different from the management of other scarce resources like foodgrains or fertilizers except that this particular resource is expressible only in terms of financial values. It seems evidently inappropriate to talk of the 'audit' of food or fertilizer allocation: an 'audit' of the administration of foreign exchange resources is perhaps equally inappropriate though this may not be self-evident.
- (c) Thirdly, if we regard Exchange Control and Import Trade Control as regulatory functions in the economic sphere, another analogy suggests itself. Import licensing, for example, is similar to industrial licensing. Other controls with which analogies can be established are price controls and movement controls under the Essential Commodities Act. It is clearly not appropriate to suggest that there should be an audit of industrial licensing or of price control measures or of the control of the movement and distribution of foodgrains. The suggestion for an audit of the Exchange Control and Import Trade Control functions of the Government seems no less inappropriate.

4. It is by no means intended to suggest that in respect of such regulatory functions in the economic sphere the Government is not

accountable to Parliament. The limited point which is being made is merely that such accountability is not necessarily forced in all spheres of activity through the agencies of the Comptroller and Auditor General and the Public Accounts Committee. Apart from the extremely general proposition that the Government is answerable to the electorate for all its policies as well as for its executive functions, there are two specifically parliamentary devices through which the Government is obliged to give an account of its functioning to Parliament, namely, the Budget Debate and Parliament Questions. The manner in which the regulatory role is performed is also open to examination by the Estimates Committee, and recently the Estimates Committee did go into all aspects of foreign exchange management in their Thirtieth Report (Fourth Lok Sabha). The import policy for a year and the orders issued from time to time regulating the foreign exchange transactions are publicly announced and copies placed in the Parliament Library. Questions are asked in each session of Parliament on the foreign exchange position and transactions, and the Hon. Members have the opportunity of discussing any problem which they consider worthy of attention. Questions in Parliament can and do lead to the appointment of enquiry committees or commissions covering specified areas of policy or executive action. Government on its own also can and does appoint commissions or committees of enquiry from time to time.

5. The question remains: how exactly do the authorities responsible for Exchange Control and Import Trade Control satisfy themselves that these functions are being discharged properly? In so far as exchange control is concerned, the Reserve Bank of India Administers it directly only to a limited extent: by and large it functions through the Authorised Dealers to whom numerous instructions are issued from time to time and on whom a great deal of responsibility rests. The Authorised Dealers have to submit to the Reserve Bank a return of foreign exchange transactions put through during every ten-day period. These returns and the applications of the importers are audited by the Reserve Bank. In regard to export proceeds, rules have been framed to ensure that foreign exchange earned through exports is surrendered to the Reserve Bank of India within a specified period, and compliance with this condition is watched by the Reserve Bank of India. For investigating violations of the Foreign Exchange Regulations Act and the rules framed thereunder, there is a statutory authority named by the Act itself, i.e., the Director of Enforcement. In so far as the Import Trade Control is concerned, the decisions taken at each level in the hierarchy of the Office of the Chief Controller Import and Export are subject to a test-check by the official at the next higher level. Further, there is an Inspection Wing which ex-

mines whether licences are issued according to the import policy in force and are otherwise in order. As regards violations of the conditions subject to which import licences are issued, the Chief Controller Import and Export can take action under the Import Trade Control Act. There is also an internal unit in the Ministry of Finance which was set up initially for checking the functioning of incentive licensing under the erstwhile Export Promotion Scheme and is now engaged in the audit of replenishment licensing.

6. Shri Padhi has pointed out that in spite of the existing procedures and internal check, there are instances in which it has not yet been definitely established that the foreign exchange said to have been earned from exports has actually come home correctly according to the unit values shown in the export invoices and the GR forms; and that cases had come to notice in which remittances, which ought not to have been allowed, had been allowed by the Authorised Dealers. Shri Padhi has also added that the Committee had come across instances of Customs Clearance Permits having been allowed for values in excess of the values shown in import licences, as also cases of unauthorised imports having been allowed to be landed by the issue of the Custom Clearance Permit after taking guarantee bonds which were ultimately not enforced. He has added that it is not possible to say whether these are instances of mere failure of the human element or are indicative of any deficiency or lacuna in the system of control.

7. Under any system of control, however carefully devised, lapses can always occur. The system has necessarily to be kept constantly under review, and continuous thought has to be given to the improvement of the internal checks. It is always possible for the Government to undertake a self-examination in respect of the exercise of its control and regulatory functions. For example, the system of foodgrains distribution and zonal movement restrictions have formed the subject of an enquiry; the functioning of industrial licensing under the Industries (Development and Regulation) Act is currently the subject of study by a Committee; and in fact the whole range of governmental machinery and functioning is at present being elaborately examined in depth by the Administrative Reforms Commission. While the need for periodical reviews of exchange control and import trade control procedures and internal checks can thus be granted, it does not seem to follow from this that such a review should be necessarily or appropriately entrusted to the Comptroller and Auditor General of India.

8. A limited suggestion is some-times made that where foreign exchange is released a *quid pro quo* for specific obligations undertaken (mainly, corresponding exports or barter), adequate procedures should be laid down to ensure that the obligations are actually fulfilled. Government

recognises the need for laying down clear procedures in such cases and making periodic checks as a part of its normal administrative responsibilities to verify actual compliance. Whether and to what extent the advice of the Comptroller and Auditor General could be usefully drawn upon in laying down appropriate procedures in this area is a matter on which this Department proposes to enter into consultations with Comptroller and Auditor General.

Sd.|- A. R. SHIRALI,

Joint Secretary to the Government of India.

To

The Chairman and Members
of the Public Accounts Committee.

APPENDIX II

Summary of Main Conclusions/Recommendations

| Sl. No. | Para No. of Report | Ministry/ Department concerned | Conclusions/Recommendations |
|---------|--------------------|--------------------------------|---|
| 1 | 2 | 3 | 4 |
| 1 | 1.43 | Finance/Commerce | <p>The Committee are shocked to observe that import licences granted by Government with the avowed object of export promotion of tanned hides and skins should have been used to perpetrate frauds entailing heavy loss of foreign exchange to the country. According to the investigations carried out by the Central Bureau of Investigation, the parties committing the frauds purchased import entitlements for raw hides and skins from leather merchants of Madras and then arranged to import, through their agents abroad, worthless stuff at grossly inflated prices. An idea of the extent of over-valuation can be had from the fact that imported raw hides and skins, both cleared and uncleared, the value of which was estimated at Rs. 1,03,500, were invoiced at Rs. 1,54,32,438 (i.e., 149 times the assessed value). The Committee note in this regard that, according to the findings of the Central Bureau of Investigation, in one case imports were arranged through a firm floated by the partners of</p> |

| 1 | 2 | 3 | 4 |
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| | | | the importing firm solely for the purpose of effecting shipments and in another case a remuneration of 3% was paid to a foreign firm for allowing the use of their name as shippers. |
| 2 | I.44 | Finance/Commerce | <p>In the opinion of the Committee, the commission of these frauds had been made possible by loopholes in procedure and by certain lacunae in the Export Promotion Scheme as it subsisted up to 31st August, 1963. The Committee got an impression during evidence that hardly any check was exercised against over-invoicing at the licensing stage. Even though there was a provision for the indication of the quantity in the import licence, no such indication was given in the case of non-capital goods. Nor was there any check at the foreign exchange releasing stage. All this combined with laxity at the importation stage facilitated the perpetration of the fraud.</p> |
| 3 | I.45 | Commerce | <p>The Committee note that the Export Promotion Scheme has since been modified, and the import entitlement is now restricted to 19%, instead of 75%, as before. Restrictions have also been placed on the sale/transfer of import entitlements. The Committee would like the Ministry of Commerce to examine the feasibility of indicating in the licence the fair unit values of the commodities to be imported on the basis of ruling international prices.</p> |
| 4 | I.46 | Finance | <p>The Committee are concerned over the performance of the Customs Department in these cases. It appears to them surprising that</p> |

the appraising staff of the Department, who were supposed to keep in constant touch with the market and maintain registers showing the prices of commodities coming from various sources, should not have been able to detect these cases, over-invoicing in some of which was as high as 228 times the assessed values. It was urged in evidence that the appraising staff at minor ports was not high ranking enough. The Committee, however, find that the failure to detect over-invoicing was not confined to minor ports; it was also evident in case of major ports like Calcutta, Bombay and Madras. The Committee would like Government to examine whether there was not a gross neglect of duty on the part of the appraisers concerned. They would also like the Ministry to examine whether some change in the existing system is not called for.

5

I.47

Commerce/Finance

The Committee are pained to observe that at a time when this country was facing a serious shortage of foreign exchange, the Ministry of Commerce should have issued licences worth crores of rupees for the import of raw hides and skins to persons who were not interested in importing these materials. As pointed out by the representative of the Central Bureau of Investigation in evidence, the licensees had perhaps enough materials of their own, with the result that most of them sold their import entitlements at a paltry commission of 2 to 3% and some of them even surrendered their entitlements. This shows how wrong the Export Promotion Council had been in their assessment of the need for imports of these materials. The Committee desire that the Ministry of Commerce should carefully review the issue of import licences which

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| | | | are given by way of incentive for exports to make sure that such abuses do not recur. |
| 6 | 1.48 | Finance/All other Ministries. | <p>Another disquieting aspect of the matter which has come to the Committee's notice is the lack of coordination between the various Ministries and Departments of Government. During the course of evidence when the Committee desired to know whether any further licences had been given to the firms which had sold the licences in these cases, the representative of the Ministry of Commerce stated categorically that the case had not even been reported to them by any quarter. The Committee are surprised to learn this. They feel that after the cases had come to light, these should have been brought to the notice of the Ministry of Commerce. The Ministry of Commerce should have also been kept fully posted with subsequent developments. This was necessary to enable that Ministry to examine the matter in the light of the new situation and initiate such action as they considered necessary. This unfortunately was not done. The Committee trust that necessary steps will be taken to ensure that in all such cases there is close coordination between the Ministries and Departments of Government.</p> |
| 7 | 1.49 | Commerce | <p>The Committee would like the Ministry of Commerce to consider the question of debarring the persons who had abused their licences in these cases from getting further import licences.</p> |

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| 8 | 1.50 | Finance/Commerce/ Home Affairs. | As regards the action taken or to be taken against the persons involved in these cases, the Committee note that some of the cases have already been filed in court, and the remaining ones are also expected to be filed shortly. They would, therefore, not like to comment on this aspect. They are, however, anxious that the prospects of recoupment of foreign exchange under Section 23(IB) of the Foreign Exchange (Regulations) Act should be fully explored in all these cases. |
| 9 | 1.51 | Finance/Home Affairs | In their note to the Committee, the Central Bureau of Investigation have promised to send to the Reserve Bank a report on the acts of omission and commission of the banks authorised by the Reserve Bank to deal in foreign exchange. The Committee trust that on the receipt of this Report, the Reserve Bank will take necessary action against such of the banks as had contravened the Reserve Bank's instructions in regard to release of foreign exchange. |
| 10 | 1.52 | <u>Finance</u> Home Affairs | The Committee appreciate the difficulties in investigation of cases involving breaches of foreign trade and exchange control laws. They are particularly anxious that persons contravening these laws should not be able to flee to other countries for the purpose of escaping punishment or destroying incriminating evidence against them. While the Committee are anxious that the freedom of the citizen is not impinged upon in any manner, they feel that such freedom should not be allowed to be so used as to prevent the law of the land from having its natural course. The Committee are keen that no person is allowed to contravene the law with impunity. It should also be examined whether and |

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| | | | to what extent the difficulty of obtaining witnesses and documents from foreign countries and apprehending persons involved in economic offences can be got over by enlisting the support of the International Criminal Police Organisation or by amendments to Indian laws. |
| 11 | 1.53 | Finance/Commerce | The Committee would also like to observe that the parties involved in cases of the present type are rich and influential and the amounts hoped to be gained large and tempting. They would like the Ministries concerned to examine whether the foreign trade and exchange control laws of this country are implemented strictly to make anti-social elements feel that breaches of law will not and cannot pay. |
| 12 | 1.54 | Finance/Home Affairs | The Committee find that a number of enforcement agencies are seized of cases against firms and persons involved in economic offences. In the interest of smooth and swift investigation of such offences, the Committee would like to emphasise the imperative need for close coordination among these agencies. The Committee trust that necessary steps will be taken by Government to ensure close coordination between various investigation agencies. |
| 13 | 1.55 | Finance/Commerce: Home Affairs | The problem of leakage of foreign exchange through over-invoicing and under-invoicing is an old one. The Committee observe in this regard that the Mathur Study Team on Import and Export Trade Control Organisation had, <i>inter alia</i> , recommended the study of the |

problem of over-invoicing and under-invoicing by a separate Committee. Government have stated in a written note that consequent upon the abolition of the old Export Promotion Schemes and the enforcement of a new import policy for registered exporters with effect from August, 1966, Government felt that there was no need for the appointment of a Committee for the purpose. The Committee are left with an impression that the malpractice of over-invoicing and under-invoicing of exports and imports has not been effectively checked and, therefore, they feel that it would be useful if a small Study Team consisting of the officers of the relevant Ministries and of the Reserve Bank and the Central Bureau of Investigation is appointed to study the problem in all its aspects and suggest remedial measures.

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1.60

Finance

The Committee would like Government to take an early decision in consultation with the Comptroller & Auditor General so that irregularities in cases where specific obligations are undertaken by the parties concerned may be brought out without delay.

| Sl. No. | Name of Agent | Agency No. | Sl. No. | Name of Agent | Agency No. |
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| 26. | Atma Ram & Sons, Kashmere Gate, Delhi-6. | 9 | 35. | The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi. | 88 |
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| 30. | Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi. | 23 | 38. | Shri N. Chaoba Singh, News Agent, Ram Lal Paul High School Annexe, Imphal. | 77 |
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| 32. | Jayana Book Depot, Chaparwala Kuan, Karol Bagh, New Delhi. | 66 | 39. | The Secretary, Establishment Department, The High Commission of India India House, Aldwych, LONDON W.C.-2. | 99 |

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